



Consumer reviews and the creation of booking transaction value: Lessons from the hotel industry



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ABSTRACT

In recent years, much has been said about online consumer-generated feedback. Concern typically emerges regarding consumer decision-making as well as the preservation of an organization's image. Additionally, a company's financial performance can be affected by customer online ratings. The present study explores the impact of a hotel's rating and number of reviews on the value generated through online transactions. Through collaboration with consulting company Travel Click, the research team gathered a sample of 178 hotels representing various companies and brands within the United States. Research results demonstrate that TripAdvisor ratings as well as the number of reviews had positive relationship with the average size of each online booking transaction. The paper concludes with theoretical and practical implications.

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1. Introduction

Many of today's managers are concerned about their online image. Scholars have been equally concerned about the emergence of consumer-generated feedback and have studied topics such as consumer decision making (Sparks and Browning, 2011; Williams et al., 2010; Vermeulen and Seegers, 2009; Pavlou and Dimoka, 2006), online image (Schmallegger and Carson, 2007; O'Connor, 2010), responses to online complaints, and the operational uses of online reviews (Torres et al., 2013). Despite the amount of resources devoted to monitoring online feedback in the lodging industry and the amount of time and efforts scholars have devoted to conducting research, little is known about the impact of such feedback on incremental revenue generation. Among the emerging literature in this subject is a study by Ye et al. (2009) in which a mathematical model was developed to explain the impact of user-generated comments on hotel sales and profitability. Other researchers have explored the relationship of positive reviews and traffic to the business' website (Zhang et al., 2011). Despite the existing studies, more research is needed to demonstrate the effects of word-of-mouth communications in hotel bookings.

Concern for word-of-mouth communications (WOM) is not a new phenomenon. However, the existence of various channels to

express consumer feedback has stirred a new wave of attention on the topic. Westbrook (1987) defined word-of-mouth as: "informal communications directed at other consumers about the ownership, usage, or characteristics of particular goods and services and/or their sellers" (p. 261). Researchers have posited that WOM has the potential to impact consumer purchase decisions, customer acquisition, and consequently result in increased revenue for organizations (Litvin et al., 2008; Trusov et al., 2009).

It can be argued that one of the goals of management research is to provide tools for current and future business leaders to make intelligent evidence-based decisions. Additionally given the investment that companies put forth toward maintaining a positive online image, it would be prudent to examine the likely returns from such efforts. Although research has started to examine financial performance measures as a consequence of consumer-generated feedback, many of these studies use proxy data to estimate actual financial measures. While this can be helpful in drawing attention to the research problem, the present study adds value by utilizing actual revenues from booking transactions. Additionally, while other studies have tried to link ratings to REVPAR (Blal and Sturman, 2014), the present research examines the impact of rating, ranking and number of reviews on a hotel's ability to generate revenues through its booking transactions. In light of this, it can be stated that the purpose of this study is to explore the impact that a hotel's firm rating, relative ranking, and the overall number of reviews have on the average value of each booking transaction. Arguably, the present study can contribute to both the theory and practice of hospitality by exploring the links between

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various trends and practices and the hotel's financial measures. The following research objectives were proposed:

- To assess the impact of consumer-generated feedback on booking transactions.
- Evaluate the role of a hotel's relative ranking on booking transaction.
- Exploring the impact of the number of reviews on booking transactions.

2. Literature review

2.1. The financial outcomes of online feedback

While small in size, a nascent stream of literature exists to explore the role of online feedback on financial performance. As an example; [Ye et al. \(2009\)](#) developed a mathematical model to explain the impact of user generated comments on hotel sales and profitability. Accordingly, a 10% improvement in reviews led to a 4.4% increase in sales. In a similar vein, Brian Ferguson (Executive Vice-President of Expedia) disclosed that according to his records "A one- point increase in a review score equates to a 9% increase in ADR" ([Lynch, 2012](#)). The preliminary evidence proposed by both this mathematical model, as well as the data collected by industry professionals in online travel agencies, suggests that an impact exists between positive reviews and revenues. At the present time TripAdvisor is a very prominent online review site for hotels. Using consumer feedback, [TripAdvisor \(2013\)](#) applies a proprietary formula to assign hotels a ranking. Accordingly, this formula takes into account the number of reviews, age of the reviews, and quality (valence) of the reviews. Nevertheless, given the proprietary nature of such formula, the amount of emphasis placed on each factor, as well as any other factors not explicitly disclosed to the public is unknown.

[Blal and Sturman \(2014\)](#) studied the impact of ratings and volume of reviews on REVPAR. They demonstrated that there was a significant impact of ratings on the revenues per available room. However, the number of reviews did not account for a significant shift. [Blal and Sturman \(2014\)](#) used a sample in London and thus the present study expands upon the existing knowledge by using a cross section of hotels in the United States. The present study examines a lodging establishment's financial data as measured by the average transaction size (in dollars). As such it provides a unique contribution, as higher transactions could potentially signify a customer's willingness to pay a premium for a room. Additionally information from TripAdvisor which was publicly available online, was used to explore the impact of ratings and number of reviews on the average size of an online transaction.

Hoteliers want to see increased traffic to their proprietary websites. However, generating such traffic in the midst of a competitive landscape can present a challenge. [Zhang et al. \(2011\)](#) empirically tested such relationship and confirmed that there is a positive relationship between good reviews at a third party site and traffic to a business' proprietary website, in this case, a restaurant. [Gu et al. \(2012\)](#) studied the relationship of internal and external Word-of-Mouth (WOM) on the sales of digital cameras. Their research demonstrated that sources of external WOM (in this case the third party review sites Epinions, DpReview, and Cnet) had a stronger influence on product sales as compared to the internally hosted sites such as Amazon. The study by [Gu et al. \(2012\)](#) is relevant in that the researchers studied a high-involvement purchase decision. Similarly, a hotel stay for many travelers is a high-involvement purchase decision due to the potentially high transaction costs, perceived risks, and other factors. Nevertheless, it is noteworthy that digital cameras remain a tangible product, and thus the consumer can potentially visit a local retailer, see, touch, feel, and

try the product. The case of a hotel presents a product that is intangible; therefore the consumer does not have the ability to see the product live (though he/she might view pictures), touch, feel, smell, or try the hotel before visiting. Consequently, it is likely that the influence of WOM communications will be stronger for a hotel stay. Consistent with this notion, [Senecal and Nantel \(2004\)](#) posited that WOM would be more influential to purchasers of experiential products.

Whereas [Ye et al.'s \(2009\)](#) model suggests that improvement in reviews leads to greater sales; the study is based on proxy data. Consequently, confirming or disconfirming such results using revenue data from booking transactions can enhance scholar's understanding of consumer-generated feedback and manager's ability to implement successful strategies. Furthermore [Zhang et al.'s study \(2011\)](#) posits that good reviews can lead to greater web traffic for restaurants. If the same principle was applied to hotel's website; greater traffic can be seen as a positive indicator. However, does such traffic lead to booking transactions? In light of our understanding on the role of positive online reviews on transactions and seeking to further examine this phenomenon, the researchers proposed the following hypothesis:

H1. There is a significant relationship between a hotel's overall rating (i.e. 1, 2, 3 stars) on TripAdvisor and the hotel's average revenues from online transactions.

It has been proposed that online sources can be used as a marketing tool. For example, some lodging properties have created photo contests for guests, and encouraged them to share videos and stories. Furthermore, hotels have used social networking to help guests interact with one another before a stay and create contacts to socialize during their visit ([Kasavana et al., 2010](#)). Additionally, [Schmallegger and Carson \(2007\)](#) proposed enticing guests by granting vouchers. These can all be great examples of generating excitement through social media; however it is not clear whether hoteliers would get a return on the investment they make in such activities. [Ye et al. \(2011\)](#) conducted an additional study in which they sought to explore the impact of positive online reviews on hotel sales. Nevertheless, due to the lack of financial data, the number of reviews was used as a proxy for hotel sales. Their study demonstrated that a higher valence of the average review rating leads to an increased number of reviews. Furthermore, they discovered that the variability in such comments was not as critical as the overall rating given by consumers in terms of generating a greater number of reviews ([Ye et al., 2011](#)).

Hotels receive quality feedback from various stakeholders including consumers, experts, and internal sources. [Torres et al. \(2013\)](#) explored the operational implications of such feedback. Furthermore, the researchers discovered that the ratings of consumers and experts had been positively correlated with the perceptions of quality improvement of hotel General Managers. [Ogut and Tas \(2012\)](#) examined the impact of both expert ratings (in this case online ratings), and consumer ratings (through comments posted in an online travel agency). Such study sought to understand the impact of experts and consumer's opinions on hotel sales in two major tourist destinations: Paris and London. In a similar manner than [Ye et al. \(2011\)](#), researchers [Ogut and Tas \(2012\)](#) utilized the number of reviews as proxy for sales. Their findings suggest that consumer ratings impact the number of reviews more so than the ratings of experts. Of greater importance is the fact that the authors demonstrated a positive relationship between consumer ratings and the lodging establishment's average price of a standard double room during the data collection period ([Ogut and Tas, 2012](#)).

A business' online reputation can be positively or negatively affected by online feedback. Seeking to explore the impact of electronic WOM in the ability to generate price premiums, [Ba and Pavlou \(2002\)](#) conducted both an experimental and a field study

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